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THE REORGANIZATION OF THE YUGOSLAV FINANCIAL SYSTEM

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The important measures which have been introduced in Yugoslav economy since last year are completely new. They represent the result of experience in socializing a state during a period of transition and of factory administration by the producers themselves.

The direct administration of economic enterprises by producers, however, cannot be realized by mere proclamation or by the physical transfer of the enterprise to them, but requires the introduction of a great many more political and economic measures.

When the federal Minister of Finance presented the budget for 1951, he characterized the essence of the reorganization of the Yugoslav financial system when he said that the reorganization of the economy must undoubtedly depend on a sound financial system. While Yugoslavia has, on the one hand, new methods of administering the economy and has clarified the concept of the state in the administration of the economy, on the other hand, the methods of financing, controls, and the role of the financial system in the economy are for the most part patterned on the Soviet state-capitalist methods of administering the economy. This contradiction must be eliminated.

The planned reorganization of the financial system is based on more complete separation of the economy and the state, observing economic laws in the development of the economy, increasing the productivity of economic resources, applying the self-interest principle, joining the workers' interests to the success of the enterprise as much as possible, and working on the principle that no enterprise can be independent without financial independence. This last depends on the enterprise being operated profitably and realizing that Yugoslav economy is not independent of the world economy, that it is necessary to make certain adjustments of prices to the level of prices abroad, and take into account economic happenings in the countries with which Yugoslavia trades.

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The basic changes in the reorganization of the Yugoslav financial system are as follows:

1. The former financial system was based on the principle that the budget is a reserve into which almost all earnings realized by the state production sector are poured, and the economy draws from this reserve not only for expanding its production but also for its planned losses. This system necessarily followed from the theory that the state is not only a general regulator of the economic development of a country but is also a firm and direct administrator of the economy as well as a producer.

Yugoslavia is to abandon this theory, which has resulted in administering the economy by administrative measures and increasing the bureaucracy. From now on, the financial independence of enterprises is to be assured. The reorganized financial system will achieve this by leaving most of their earnings at the disposal of enterprises, assigning to the state budget only what is necessary to cover expenses of basic state functions, and insuring balanced development of individual production branches or individual republics.

2. Wages in Yugoslavia formerly depended solely on the amount of work performed by an individual, making the relation of the worker to the enterprise scarcely different than that of a hired worker. Under such conditions, workers were not interested in the success and prosperity of an enterprise.

The new wage system makes wages dependent not only on the work efficiency of an individual but also on the success of the enterprise as a whole. In addition to a minimum wage, each worker is to have a share in the profits of the enterprise. Workers will thus not only become directly interested in increased production but also in the profits earned.

3. State agencies formerly determined selling prices. The new financial system does away with the policy of price determination and goods distribution by the state, which are detrimental to production and trade. In the future, the state is to determine prices only for certain products of prime importance to economic development (certain raw materials) and for basic consumers' goods, but even these prices will be determined on an economic basis and will correspond to prices of the same goods abroad. Goods distribution will be done by the state only in exceptional cases.

Although the new method of price determination is based on the law of supply and demand, this does not mean a complete surrender to this law. By stabilizing prices for basic raw materials and products on one hand, and fixing payments on the other hand (in addition to fixing certain obligations to the state budget and for amortization), the operation of the law of supply and demand is to be controlled. This system does not interfere with the development of economic laws, as long as they do not threaten to jeopardize the established relationships in Yugoslav economy and turn it into anarchy. This new system is directed toward increased economic initiative and increased and improved production.

4. The new system provides for each government agency to be financially independent as regards budget. Each agency will dispose of financial resources allotted to it by law. The general state budget is abolished, as is the former budget system which led to miserly utilization of resources, and, to some extent, hindered the discovery of new sources of income. However, the new system does not eliminate the possibility or fail to recognize the necessity of aiding undeveloped republics or territorial units. The future budget is to be smaller since it will no longer be the exclusive instrument for the distribution and redistribution of funds for the further development of production capacities.

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5. The new tax system provides that farmers are to pay taxes on a fixed income determined on the basis of acreage, quality of soil, and type of crop produced. Inequitable taxes which were formerly sometimes imposed on farmers because of inaccurate estimates of their incomes will thus be eliminated.

6. The financial independence of enterprises is to be achieved through a new credit policy. The former credit policy was very bureaucratic because it was conducted on the basis of detailed financial plans worked out by enterprises or on the basis of credit plans prepared or approved by state establishments. Banks were much like state establishments, especially those banks dealing with long-term loans and charged with the distribution of budget funds. Loans granted to enterprises which turned out to be bad credit risks were repaid to these banks from state-budget funds. Such banks were, therefore, not credit institutions operating independently on sound economic principles. From now on, loans will usually be granted or refused on the basis of the credit rating of the requestor. However, the credit rating cannot always be the sole criterion for the granting of credit. When it is necessary in the interests of planned development to grant credit to a bad credit risk, the next higher-ranking economic organization or state agency concerned is to give the necessary guarantee to the bank, and the loan will be granted.

The new credit policy contains many other provisions resulting from regulations incorporated in the new financial system, such as increased interest rates, etc.

The problem of responsibilities for credits which enterprises obtain is to be solved. It is planned to place insolvent enterprises under compulsory administration and place more responsibility on trade unions of enterprises, especially on their administrative councils. The latter are to be legally accountable in cases of unscrupulous or wasteful utilization of loans or other funds.

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